

OFFICER'S QUESTIONNAIRE

PURPOSE

The questionnaire is intended to obtain information that might not otherwise come to the examiner's attention during the examination.

GENERAL

- Most answers should be given since the date of the previous FDIC examination. However, when the question specifies "since the last FDIC examination," examiners have the discretion to only request information since the previous state examination, if a state report is acceptable.
- Examiners may interpret questions to help management complete the questionnaire. If an answer is believed to be in error, the signing officer may be permitted to correct the answer, provided the error is an oversight or misunderstanding. The signing officer should initial all corrections.
- The questionnaire is an official document prepared by the institution. Do not alter it.
- The examiner has the flexibility to determine the date which the questionnaire is to be completed. The questionnaire may be completed as of the "examination as of date" or as of the "examination start date." However, under no circumstances should the banker be given the opportunity to complete the questionnaire as of a date subsequent to receiving the questionnaire.
- Questions #3, #17, and #18 have subparts. Each subpart should be answered separately. For example, a completed answer for question #3 may be as follows:
 - (A) None
 - (B) I.M. Sharpe
U.R. Sharpe
 - (C) None
- Completion of the Questionnaire should be on a "consolidated" basis.
- Generally, the chief executive officer should sign the questionnaire. However, any executive officer, as defined by Regulation O, may sign if no significant problems are anticipated.
- Answers can be listed on continuation pages when adequate space is not provided following the question. Copies of institution documents are acceptable, provided they furnish at least the requested information and contain original signatures. If printouts are voluminous, they may be retained in the examination workpapers and not included in the Officer's Questionnaire. The questionnaire should state that a complete listing was given to the examiner-in-charge.
- Questionnaire pages need not be numbered, unless extensive. Refer to General Instructions.

OFFICER'S QUESTIONNAIRE (continued)

QUESTION 1

The purpose of the question is to:

- Capture loan movements between financial institutions and insiders and their related interests (for example, purchases from directors).
- Identify "concentration" activity with a particular institution or individual.
- Identify and review potential conflicts of interest.
- Assist in verifying accuracy of balance sheet and income information (and subsidiary records).
- Determine if the transaction is with or without recourse (that is, if it is a bona fide purchase).

If the institution is purchasing participations with recourse, it may impact presentation of financial statements within the Report as well as impact the examiner's financial analysis.

Note: Printouts of such loans, if voluminous, are acceptable. Such printouts may be retained in the examination workpapers and not included in the Officer's Questionnaire. If a listing is not provided within the questionnaire, the questionnaire should state that a complete listing was given to the examiner-in-charge.

Reference: Loans Section of the Manual

QUESTION 2

The purpose of the question is to:

- Capture loan movements between financial institutions and insiders and their related interests (for example, sales to directors).
- Identify "concentration" activity with a particular institution or individual.
- Identify and review potential conflicts of interest.
- Assist in verifying the accuracy of balance sheet and income information (and subsidiary records).
- Determine if the transaction is with or without recourse (that is, if it is a bona fide sale).

If the institution is repurchasing participations prior to maturity, it may indicate that the institution is selling loans with recourse. This practice will impact presentation of financial statements within the Report as well as the examiner's financial analysis.

Note: Printouts of such loans, if voluminous, are acceptable. Such printouts may be retained in the examination workpapers and not included in the Officer's Questionnaire. If a listing is not provided within the questionnaire, the questionnaire should state that a complete listing was given to the examiner-in-charge.

Reference: Loans Section of the Manual

OFFICER'S QUESTIONNAIRE (continued)

QUESTION 3

The purpose of the question is to:

- Determine the extent of interest capitalization.
- Identify loans with potentially poor credit quality.
- Identify credit practices which may distort past-due information.
- Identify practices which may adversely impact the quality of the institution's reported earnings.

Forward affirmative answers to examiners reviewing loans. An excessive number of these loans may, depending on the type of credits and management information systems, distort the institution's financial position by overstating earnings and understating the past-due ratios. If there is a lengthy response to this question, it may be appropriate to include comments regarding the accuracy of the past-due ratios on the Asset Quality, core Earnings, and/or management pages. Excessive use of these practices may warrant an Examination Conclusions and Comments page comment.

QUESTION 4

The purpose of the question is to:

- Assist in determining compliance with reporting requirements of Section 7(j) of the FDI Act.
- Assist in determining or assessing the extent of interbank activity, and assist in understanding relationships between entities and their management teams.
- Review insider relationships, when applicable.
- Assist in determining or assessing direct or indirect control issues, asset quality, and dividend requirements of other entities.
- Generate information necessary for bank correspondence file cross-referencing. This data is used to verify the accuracy of information at other institutions.

Note: Complete the Bank Stock Letter and submit it to the Regional Office with the Report.

References: Section 7(j) of the FDI Act
 Section 23A of the Federal Reserve Board
 Bank Holding Company Act
 Banking Act of 1933 (Refer to the Related Organizations Section of the Manual)
 Part 303.4 of the FDIC Rules and Regulations (that is, Change in Bank Control Act)

OFFICER'S QUESTIONNAIRE (continued)

QUESTION 5

The purpose of the question is to:

- Determine compliance with applicable laws and regulations.
- Assist in reviewing legal lending limits.
- Assist in determining asset quality.
- Assist in determining concentrations.
- Assist in reviewing potential conflicts of interest.

This question is searching for "straw" borrowers, also known as "bogus" or "pass through" borrowers. If loan proceeds went to the benefit of a person other than that named on the note, or otherwise disclosed in bank records, it may be applied to the benefiting parties' aggregate debt for legal lending limit purposes.

References: Regulation O of the Federal Reserve Board
Part 353 of the FDIC Rules and Regulations
Criminal Violations Section of the Manual
(False Statements or False Entries)

QUESTION 6

The purpose of the question is to:

- Determine compliance with applicable laws and regulations.
- Assist in reviewing potential conflicts of interest and/or preferential treatment.
- Assist in determining the extent of such activities, and assist in better understanding the entities' business relationships with each other.
- Assist in reviewing asset quality.
- Assist in determining concentrations in this type of lending.
- Allow for the appropriate cross-referencing of files and verification of data at other institutions

Note:

- The "Borrowings of Officers of Other Banks" should be completed and submitted to the Regional Office with the Report.
- In larger institutions, examiners may want to request only executive officers' extensions of credit.

References: Regulation O of the Federal Reserve Board
Section 106(b)(2) of the Bank Holding Company Act
Part 349 of the FDIC Rules and Regulations (may be violation at other entity)
Part 337 of the FDIC Rules and Regulations

Check responses against Borrowings of Officers of Other Banks letters. Make a cross-check with Due From's/To's, time and demand deposits, Federal funds purchased and sold, and loans purchased and sold.

OFFICER'S QUESTIONNAIRE (continued)

QUESTION 7

This question is intended to do the following:

- Determine the extent of, and allow for the review of, insider transactions.
- Assist in determining that such transactions have not resulted in harm to the institution.

Transactions may include arrangements such as equipment leases, leasing of bank premises, and insiders providing institution-related services such as appraisals, EDP services, legal services, and insurance.

References: Bank Fraud and Insider Abuse Section of the Manual
Criminal Violations Section of the Manual
Subsection, Conflicts of Interest, within the Management Supervision, Administration, and Control Section of the Manual

QUESTION 8

The purpose of the question is to:

- Assist in reviewing potential conflicts of interest.
- Assist in determining if such transactions have an adverse affect on the institution.
- Assist in reviewing potential misapplication of funds.
- Assist in determining "tying arrangements" that are prohibited under Section 106 of the Bank Holding Company Act of 1956.

Reference: Related Organization Section of the Manual

QUESTION 9

The purpose of the question is to:

- Assist in reviewing potential conflicts of interest.

Reference: DOS 6910(S) 9-15-92 - Complaints Against Accountants Apparently Violating Professional Auditing Standards

OFFICER'S QUESTIONNAIRE (continued)

QUESTION 10

The purpose of the question is to:

- Determine compliance with applicable laws and regulations (regarding "Golden Parachute" payments).
- Determine potential abuse resulting from excessive compensation.
- Determine potential adverse impact on future profitability.
- Assist in checking accuracy of accounting issues and financial statement representation (that is, if the institution has booked appropriate liabilities).

This question looks for potential payments that may meet the definition of a golden parachute payment as defined by Section 18(k) of the FDI Act. Such payment may be prohibited should the institution become "troubled." The information provided by the response to this question may also be used to review for excessive compensation.

References: Section 18(k) of the FDI Act
 Part 325 of the FDIC Rules and Regulations (Prompt Corrective Action)
 Part 364 of the FDIC Rules and Regulations

QUESTION 11

The purpose of the question is to:

- Assist in identifying undesirable lengths of contracts and potential excessive liabilities.
- Assist in determining any impairment of capital.
- Review for adverse termination clauses.
- Determine impact of the institution's future profitability.

Note: When determining ten percent of equity capital, use Regulation O definition of "equity capital."

This question is intended to identify contracts that have the potential to adversely affect the safety and soundness of the institution. Appropriate management review and approval should be recorded for "large" contracts.

Reference: Section 30 of the FDI Act

QUESTION 12

The purpose of the question is to:

- Determine compliance with applicable state laws and regulations.

Many states require a director to own stock in the institution before becoming a director. Additionally, some states prohibit individuals from being directors if they have been indicted or convicted of a criminal offense or have loans that have been adversely classified. State law will govern the meaning of "disqualification" for the response to this question. Cross-check responses here with responses in question #14 for possible tie-ins.

OFFICER'S QUESTIONNAIRE (continued)

QUESTION 13

The purpose of the question is to:

- Determine compliance with applicable laws and regulations.
- Ensure notification was given to proper authorities.
- Assist in reviewing recovery potential from the bonding company.
- Indicate possible internal routine and control deficiencies.

References: Section 8(e) of the FDI Act
Part 353 of the FDIC Rules and Regulations
Criminal Violation Section of the Manual

QUESTION 14

The purpose of the question is to:

- Determine compliance with applicable laws and regulations.

Reference: Section 8(e), 8(g), and 19 of the FDI Act

QUESTION 15

The purpose of the question is to:

- Assist in ensuring proper internal control and accounting over such items.
- Assist in determining the institution's capital position.
- Assist in determining compliance with key-man life insurance policy memoranda.

This question may encompass a variety of answers. Typical answers may include: (a) cash surrender value of a key-man life insurance policy when the institution is named as beneficiary, or (b) charged-off assets of undetermined value.

References: Subsection, Sound Banking Values Not Shown on Books, within the Capital Section of the Manual

OFFICER'S QUESTIONNAIRE (continued)

QUESTION 16

The purpose of the question is to:

- Determine impact of contingent liabilities, the likelihood of becoming a direct liability, and the potential impact on capital.

Note: In some instances, significant costs are incurred by an institution in obtaining a formal attorney's letter. As such, examiners should not specifically request or require such a letter as a means of answering this question. Nonetheless, many institutions will obtain an attorney's letter. Normally, a summary should be provided here, and the attorney letter(s) should be retained in the examination workpapers. If appropriate to include the letter(s) in the Report (with the Officer's Questionnaire), include these letters on a continuation page.

References: Subsection, Common Forms of Contingent Liabilities, within the Contingent Liabilities Section of the Manual

QUESTION 17

This question is intended to do the following:

- Determine compliance with applicable laws and regulations.
- Review potential conflicts of interest.
- Disclose all affiliated relationships.

Note: The term "affiliated" is to be used in its broadest sense.

References: Section 23A and 23B of the Federal Reserve Board
The Banking Act of 1933
The Bank Holding Company Act
Part 332 of the FDIC Rules and Regulations
Part 337.4 of the FDIC Rules and Regulations
Related Organization Section of the Manual

QUESTION 18

The purpose of the question is to:

- Reveal trust powers and the extent to which trust powers are exercised.
- Ensure all contingent liabilities are reviewed.

References: Part 303.7 of the FDIC Rules and Regulations
Applications Section of the Manual

SIGNATURES OF DIRECTORS

This form, located behind the Officer's Questionnaire, will be the last page in all Reports of Examination forwarded to an institution. Enter on the form, in alphabetical order, the full name of each director. This form will facilitate the proper signatures of directors after they have reviewed the Report.

The page will be included by the Regional Office in the institution's copy of the Report. The signed form is to remain attached to the Report and be retained in the institution's files for examiner review at subsequent examinations.